

2020

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Recommended Citation

Kirkwood, Heather; Tanner, Thomas; and Dixit, Ashutosh (2020) "The Counterfeit Conundrum: A Case Study to Examine the Best Way to Combat Counterfeit Consumption," *Atlantic Marketing Journal*: Vol. 9 : No. 2 , Article 4.

Available at: <https://digitalcommons.kennesaw.edu/amj/vol9/iss2/4>

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The Counterfeit Conundrum: A Case Study to Examine the Best Way to Combat Counterfeit Consumption

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Abstract – Estimated at more than \$500 billion, counterfeits are a booming industry. The negative impacts can no longer be ignored. As evidenced by the industry growth, efforts to combat consumption of counterfeit products have largely failed. This case study examines the counterfeit industry and a campaign developed by the U.S. Customs and Border Protection Agency. It presents the reader the opportunity to contemplate viable solutions for ending counterfeit consumption.

Keywords – counterfeit, marketing, consumer behavior, consumer decision making

Relevance to Marketing Educators, Researchers, and/or Practitioners - This case is designed to encourage students to explore the marketing activities between producers of counterfeit product and producers of legitimate products. Students will examine marketing strategies of both producers and evaluate how strategies differ in terms of effectiveness. There is also consideration given to the impact of the consumer decision making process (CDM) for consumers who purchase either of these types of products. Students are also asked to suggest how efforts to combat counterfeiting might be made more effective.

A Timeline of Counterfeit Product Production

Despite recent attention, counterfeiting is not a new phenomenon. While the world seemingly began to take notice of such activities during the 70's, the origin of counterfeiting predates back to nearly 2000 years ago, when brand logos were replicated on wine stoppers in France (Phillips, 2007). Through the years since, counterfeit products have found a way into mainstream business. Internationally, the sale of counterfeit products is estimated to account for nearly \$1.7 trillion in 2016 (ICC). This number is a conservative estimate as due to the illicit nature of counterfeiting activities, no true measurement can be taken. The U.S. Patent and Trademark Office has labeled counterfeiting “the largest criminal enterprise in the world,” (Bharadwaj et al, 2018).

It is no longer a matter of *if* a product will be counterfeited, but *when* will a fake version appear in the marketplace. Meraviglia (2018) stipulated that “the brand has become a symbol of social membership, and its intangible value has therefore increased dramatically. This has made counterfeiting highly profitable, and defending against it a priority”.

An additional consideration is the impact of extensive technological advances that arguably help more than hinder the counterfeiting industry. These technological advances, such as the invention and widespread usage of the Internet have widened the distribution network for such products, thus contributing to increased consumption. New technologies have impacted counterfeiting in two main ways. First, digital technology has evolved enormously: Over the past 10 years, costs have steadily decreased and quality has steadily increased. Second, the power of the internet has become immense, deeply reshaping the whole world of retail (Meraviglia, 2018). The rise of ecommerce has created markets of third-party sellers who use popular distribution outlets such as Amazon to hawk their fakes. Amazon's problem with third party sellers offering counterfeit goods (and its subsequent lack of solutions) has even caused some legitimate brands like Birkenstock and Nike to pull out of the ecommerce giant (Suthivarakom, 2020).

Many counterfeit goods purchased in the United States are manufactured in other countries and enter the country illegally. In May 2017, US Customs and Border Protection (CBP) reported that during the first half FY 2017, 821 shipments valued at \$14 million (MSRP) were confiscated. CBP reports that the top five economies of origin (by estimated value) producing products confiscated at US Borders area as follows: China, Hong Kong, India, Canada and Singapore. As Hochholdinger et al. (2019) indicated, "counterfeiting is a major international crime that reaches far beyond luxury goods". A wide variety of fake products enter the US illegally each year. CBP (2017) reports the most commonly seized counterfeit products are: apparel, consumer electronics, shoes, watches/jewelry, pharmaceuticals/personal care products, handbags/wallets, optical media, computers/accessories, designer tags/labels, and toys. While these product categories are reported to be among the most commonly seized fake items at our borders, it is important to note that counterfeiting exists across all categories. Everything from the items previously mentioned to building materials, auto parts, and even the food and beverage industry, is impacted by the presence of fake goods.

Forms of Counterfeit Products

A counterfeit product is considered to be a product that is manufactured to illegally replicate an authentic product, complete with brand name (Grossman and Shapiro, 1988). To define it more clearly, counterfeit products fall into two categories: deceptive and non-deceptive (Grossman and Shapiro, 1988). A deceptive counterfeit product is one in which the consumer can not readily observe the quality of the goods they are purchasing, nor can they easily distinguish copies from authentic merchandise," (Grossman and Shapiro, 1988). Due to the indistinguishable nature of such products, consumers are duped into believing they are buying the authentic item. This has the potential to become especially dangerous for consumers, specifically when dealing with counterfeit food items, medications, and automobile parts. The quality is not likely to be of the same caliber and furthermore, such products have not undergone government testing and therefore could pose health hazards. Conversely, non-deceptive counterfeits are those products in which the consumer often knows, or possibly suspects the item to be fake, as evidenced by its quality, price, or location of distribution.

Counterfeits are Big Bargains...Right?

The temptation to knowingly purchase a counterfeit item can be too overwhelming for some consumers to resist. After all, many consumers treasure the idea of owning the hottest, trendiest items in the marketplace while sacrificing little cash to do so. We want to wear the latest fashions and keep up with those we aspire to be like, but we may not be able to afford to do so. Counterfeits offer a cheaper way for consumers to indulge in such luxuries. Counterfeits can seem like a big bargain to the consumer who lacks knowledge of the serious implications involved with such purchases

for consumers to purchase counterfeit items, the consumer often has little to no knowledge or understanding of the consequences of such illicit transactions. Some consumers are aware that there may be ethical implications associated with the purchase of such products, yet justify doing so as they believe it to be a “victimless crime”. Khandeparkar and Motiani (2018) went as far as to posit that individuals who knowingly purchase counterfeits also develop a passion for the brand, express themselves through these brands, feel discomfort if seen without it, and feel that it projects dimensions of their identity.

From a business perspective, the production and consumption of counterfeit goods is detrimental. First and foremost, legitimate businesses suffer from loss of sales and subsequently, loss of jobs. The purchase of counterfeit goods can lead to devaluation of luxury good brands. Negative brand perception and brand contamination can occur. The presence of counterfeit goods in the marketplace may also lead some consumers to experience brand confusion. The government is also negatively impacted by counterfeit consumption. Counterfeit products are not inspected like those produced by legitimate businesses. Counterfeiters are able to evade taxes which results in lost revenue.

Counterfeit good consumption doesn't just negatively impact legitimate businesses and the government. The loss of revenue from taxes translates to less funding for social programs. In addition, proceeds from the sale of counterfeit items have been linked to the funding of terrorism, organized crime, drug and firearm trafficking, human trafficking and prostitution. Consumption of counterfeit items also can potentially pose serious health and safety issues- especially in product categories such as food, drink, and auto parts.

Efforts to Curb Counterfeit Consumption

Several laws exist to deter the production and consumption of counterfeit goods, but there are issues with the actual enforcement of the laws. Part of the ongoing challenge is that counterfeiting is growing at a such a rapid pace that it's prevented law enforcement agencies from sustaining adequate control. Additional challenges exist in that the waters become a bit muddy in terms of who is actually responsible for enforcement. The fragmented enforcement system resulted in the World Trade Organization establishing an Agreement on Trade Related Aspects of Intellectual Property Rights to help establish consistency among member nations. While a valid attempt to provide consistency, enforcement remains an issue as not all countries are members of the WTO and therefore not party to the agreement.

Those charged with enforcing the law list several other challenges to thwarting counterfeit activity. Lack of financial resources is often cited as a culprit for inadequate enforcement. Challenges with lack of training regarding criminal enforcement is also a contributing factor (Simone, 2006). Like their consumer counterparts, law enforcement officers also sometimes view counterfeiting as a “victimless crime” and as they are charged with handling other types of criminal activity, sometimes adopt a lackadaisical approach to enforcing counterfeiting laws. This hasn’t gone unnoticed by the counterfeiters.

As stated before, many consumers consider counterfeiting to be a “victimless crime”. Somewhat alarming, recent studies have shown that members of certain segments (Generation Y), feel that the shameful or illegal nature of such transactions are appealing due to the “cool factor”. This indicates that another challenge of curbing counterfeit consumption lies with educating consumers regarding the negative consequences of engaging in illicit transactions. Education of consumers, employees and the general public can be an effective tool. Several trade associations and coalitions have developed YouTube and social media campaigns to reach consumers and educate them about the dangerous implications of purchasing fakes.

In the summer of 2017, US Customs and Border Protection launched a marketing campaign titled “The Truth Behind Counterfeits” in a concerted effort to raise awareness about the dangerous implications of counterfeit goods purchases. The campaign, targeted at international travelers, brings attention to negative consequences such as loss of American jobs and criminal activities such as human trafficking, drugs, weapons and other illegal activities.

Fathers of Fake----Are they the Masters of Marketing?

Counterfeit consumption is on the rise and clearly remains a problem. Consumers knowingly continue to purchase illicit goods. Counterfeiters continue to sell products, evade taxes and often escape or avoid punishment. Counterfeiting is big business. The questions then become, who are the better marketers- the counterfeiters or the legitimate manufacturers? What are the solutions to deal with these challenges?

Discussion Questions and Learning Applications

1. Who are the better marketers- counterfeiters or legitimate product producers? Why? Evaluate the marketing mix of each in terms of their strengths and weaknesses.
2. Examine the CBP campaign, “The Truth Behind Counterfeits,” (<https://www.cbp.gov/FakeGoodsRealDangers>) Based on your assessment, do you expect “The Truth Behind Counterfeits” campaign to be successful in its attempt to thwart counterfeit consumption behaviors? Why or Why not?
3. Imagine you are employed as a marketing consultant to the US Customs and Border Patrol (CBP) and charged with recommending new promotional strategies to deter consumption of counterfeit products. Based on your knowledge of marketing principles and practices, what recommendations would you advise?

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Instructor Teaching Notes

This case describes a business phenomenon- counterfeiting. Counterfeiting is a low point in business, but what are the solutions to deal with these challenges? This problem has hounded legitimate manufacturers for decades but thus far there have been no viable solutions to ending it. Counterfeits are expensive and harmful. They are not economically efficient. In the very short run counterfeiting may be successful, but in the long-run it is not only harmful to consumers but to businesses as well. For example, a cheap Rolex look alike may breakdown quickly and the customer may lose the money that she paid for purchasing the counterfeited product. The problem is much more dangerous when it comes to counterfeit medicine and food items. The role of the

businesses should be to create long term social and economic value by empowering customers and not duping them with counterfeit products that can injure consumers.

The case reviews the current landscape of the counterfeit goods market and the efforts put forth by the U.S. government to curb counterfeit consumption. A historical timeline is provided to assist students with framing the problem and understanding the magnitude to which the problem has escalated.

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